



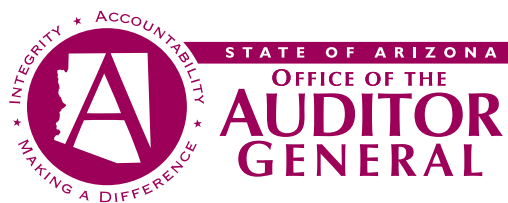
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Sterling Academy of Mathematics and Science

As of December 9, 2004



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Jerry Strom, Manager and Contact Person
jstrom@auditorgen.state.az.us

Roger Walter
Kate Reiner

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.auditorgen.state.az.us



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

April 11, 2005

Board of Directors
Sterling Academy of Mathematics and Science
DBA Bright Ideas Charter School
2720 South Dorsey
Tempe, AZ 85282

Board of Directors:

In our July 12, 2004, compliance review report, we notified you that the School had not complied with the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS) for the year ended June 30, 2002. The School was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the School's internal controls as of December 9, 2004. The purpose of our status review was to determine whether the School was in substantial compliance with the USFRCS as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the School's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Also, subsequent to our status review, we received and reviewed the School's audit reports and USFRCS Compliance Questionnaire for the year ended June 30, 2003.

Based on the number and nature of the deficiencies noted in our status review and our review of the 2003 audit reports and compliance questionnaire, the School still has not complied with the USFRCS. Further, as of the date of this letter, we have not received the School's audit reports or USFRCS Compliance Questionnaire for the year ended June 30, 2004. These reports were due by March 31, 2005. Consequently, the School is also in noncompliance with the USFRCS for nonsubmission of that year's reports. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the School's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. School management should implement these recommendations to ensure that the School fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFRCS. We have communicated specific details for all deficiencies to management for corrections.

Board of Directors
April 11, 2005
Page 2

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



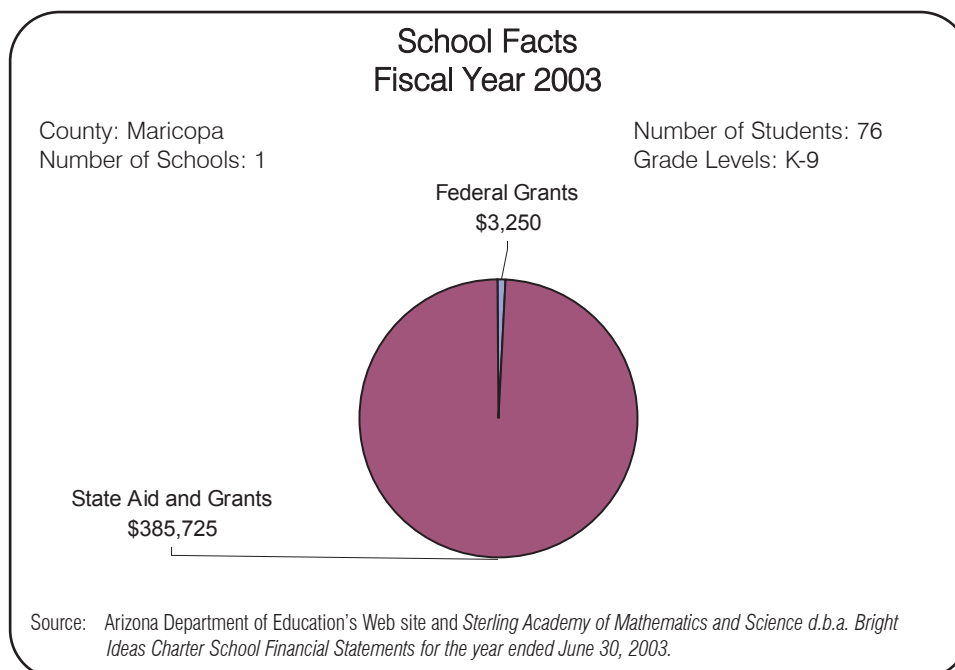
Introduction	1
Recommendation 1: The School must follow competitive purchasing requirements	2
Recommendation 2: The School should strengthen controls over disbursements	3
Recommendation 3: The School's student attendance records need improvement	3
Recommendation 4: The School should maintain an accurate and complete capital assets list	4
Recommendation 5: The School's financial information should be accurately maintained and reported	5

INTRODUCTION

Sterling Academy of Mathematics and Science d.b.a. Bright Ideas Charter School is accountable to its students, their parents, and the local community for the quality of education provided. The School is also financially accountable for over \$388,000 received in fiscal year 2003 to provide this education.

The School should use effective internal controls to demonstrate responsible stewardship for the dollars it receives. These controls are set forth in the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFRCS incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to charter schools. Charter schools are legally obligated to comply with USFRCS requirements, and doing so is good business practice.

As a result of our status review and review of the School's audit reports and USFRCS Compliance Questionnaire for the year ended June 30, 2003, we determined that the School had failed to comply with the USFRCS. We noted certain deficiencies in controls that the School's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFRCS. Our recommendations are described on the following pages.



The School must follow competitive purchasing requirements

The School represented that it had contacted four audit firms for audit services; however, two of the audit firms indicated that the School had not requested oral price quotations.

School District Procurement Rules for competitive sealed bidding and USFRCS guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that schools receive the best possible value for the public monies they spend. However, the School did not always follow the USFRCS guidelines. Specifically, the School did not have procedures to evaluate whether a purchase consists of a single item, a collection of items, or multiple purchases from one vendor, and the corresponding purchasing requirements that must be followed. In addition, the School did not always obtain or document oral price quotations for purchases over \$5,000 but less than \$15,000. Further, the School awarded contracts to vendors who were not contacted for price quotations. In one instance, the School awarded its contract for cleaning services to a school employee who was not on the School's list of vendors contacted for price quotations.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFRCS guidelines, the School should establish the policies and procedures listed below:

- Establish procedures to determine whether to request an oral or written quotation, or request bids/proposals by analyzing the requirements for an item or a collection of items that, in the aggregate, may result in the purchase of the item or items from one vendor.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$50,000. The vendors contacted and their price quotation should be written on or attached to the School's file copy of the related requisition form or purchase order. If the School cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Award contracts to only those vendors who have provided price quotations. If a vendor is selected for reasons other than the lowest price, such as quality of the product or work to be performed, the reasons should be fully documented.

School District Procurement Rules list the requirements for competitive sealed bids or proposals for goods and services in excess of \$50,000.

USFRCS Memorandum No. 55 requires:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$50,000.

The School should strengthen controls over disbursements

The School spends public monies to purchase goods and services. It is essential that the School follows procedures designed to help ensure that its purchases are approved before committing school monies and that its disbursements are properly supported. However, the School did not always complete purchase requisitions prior to ordering the goods or services. In addition, purchase orders and receiving reports were not prepared, vendor invoices were not always cancelled, and expenses did not always have adequate supporting documentation indicating the proper amount was paid.

Recommendations

To strengthen controls over disbursements, the School should establish and follow the policies and procedures listed below:

- Prepare purchase requisitions that include the date of the request, the estimated cost, and requestor's name prior to ordering goods and services. Also, the preparer and a school employee responsible for approving requisitions should sign and date all purchase requisitions.
- Prepare purchase orders an authorized employee approves prior to ordering goods or services.
- When the ordered items are delivered, have an employee who is not involved in the purchasing process prepare and sign receiving reports indicating the date, quantity received, and the items' conditions.
- Cancel invoices and all supporting documents, and record voucher and check numbers on the invoice after payment to prevent subsequent use.

USFRCS pages VI-G-2 through 6 describe disbursement processing procedures.

The School's student attendance records need improvement

The State of Arizona provides funding to schools based on student attendance. In turn, the State requires charter schools to accurately record and report student entry and withdrawal dates, attendance, and absences. However, the School's membership and absence records did not agree with the membership and

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

absences reported to ADE and, as a result, the School may not have received the correct amount of state funding. In addition, dates recorded on the entry and withdrawal forms did not always agree with the entry and withdrawal dates recorded in the School's attendance records.

Recommendations

To help ensure that the School receives the correct amount of state funding, the School should record and report attendance in accordance with ADE's *Instructions for Required Reports*. The School should assign an employee to verify that membership and absences are reported to ADE at least every 20 days and agree to the School's attendance records. In addition, the dates on the entry and withdrawal forms should agree with the School's records, and students who have ten consecutive unexcused absences should be withdrawn as of the first day of nonattendance.

The School should maintain an accurate and complete capital assets list

The School failed to properly maintain a complete capital assets list.

The School used financial resources to purchase capital asset items, such as vehicles. Effective stewardship requires the School to have an accurate list of these assets and to ensure they are accounted for and properly identified. However, the School did not have an accurate and complete capital assets list. Specifically, the list did not always include an accurate location and identifying number for each asset. In addition, the School did not maintain cost documentation to support amounts recorded on its capital assets list.

Recommendations

The following procedures can help the School improve controls over its capital assets and ensure that its capital assets list is accurate and complete:

- Prepare and maintain a detailed capital assets list of all items, including vehicles, costing \$300 or more and with useful lives of 1 year or more. Include all required information for all items on the list.
- Maintain supporting cost documentation, such as purchase orders and vendor invoices, for all capital assets, and verify that each asset's cost recorded on the list agrees with the supporting documentation.
- Update the capital assets list annually for items acquired or disposed of during the year.

USFRCS page VI-E-2 describes information that should appear on the capital assets list.

The School's financial information should be accurately maintained and reported

The School's Board of Directors depends on accurate information so it can fulfill its oversight responsibility. The School should also report accurate information to the public and agencies from which it receives funding. To achieve these objectives, management should ensure that its annual budget, annual financial report (AFR), and accounting records are accurate and complete. However, the School did not fully accomplish these objectives. Specifically, the School did not report all of the required information on its fiscal year 2005 annual budget and fiscal year 2004 AFR. In addition, the School did not maintain documentation to support amounts reported on its fiscal year 2004 AFR. Also, the School did not distinguish between projects, using only function and object codes in the accounting records to identify revenues and expenses. Further, because the School recently implemented a new accounting system, we were unable to verify if recordkeeping responsibilities were adequately separated among employees.

Because the School did not properly distinguish between projects in its accounting records, we could not determine if the School had used its Classroom Site Project monies in accordance with statute.

Recommendations

The following procedures can help the School record and report accurate financial information:

- Prepare a complete proposed budget no later than July 5 and submit a copy to the Superintendent of Public Instruction.
- Publish a notice of public hearing and governing board meeting to adopt the proposed budget and file a publisher's affidavit of publication with the Superintendent of Public Instruction.
- Adopt a budget no later than July 15 and electronically submit the adopted budget to the Superintendent of Public Instruction no later than July 18.
- Classify and record all transactions, including identification of specific projects, in the accounting records to adequately reflect the School's financial activity. This will help to determine whether Classroom Site Project monies are used in accordance with statutory requirements.
- Ensure that all revenues, expenses, and account balances reported on the AFR agree with the School's accounting records. In addition, budget amounts reported on the AFR should agree with the School's most recently revised or adopted budget.

USFRCS Memorandum Nos. 44 and 54 provide guidance on accounting for the Classroom Site Projects.

- Assign a second employee to verify that the amounts reported on the AFR are accurate and agree with the School's accounting records and budget before submission to ADE.
- Separate responsibilities among employees so that no one employee performs all the recordkeeping responsibilities. If the School cannot adequately separate responsibilities because of few staff, it should require additional supervisory reviews in the process.